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Texas State Senate Committee on Texas Ports
Public Hearing, Wednesday, May 04, 2016
Port Freeport Testimony

Dear Committee Members:

It's an honor to submit this written testimony subsequent to the presentation offered by Ravi Singhania, Charmain of Port Freeport Commission, Dr. Alexander Metcalf, President of Transportation Economics Management Systems and Commissioner Andy Meyers, Fort Bend County Commissioner Precinct 3. This written testimony will provide you history of Port Freeport and its current operations, the economic impacts generated by Port Freeport, the estimated potential impact of the Panama Canal on Port Freeport and the region and outline the strategic initiative that Port Freeport is undertaking to realize the benefits of the Panama Canal expansion.

HISTORY

In 1821, Stephen F. Austin chose the mouth of the Brazos River as the location of a colony and deepwater port to be developed. Throughout the nineteenth century and beyond, the area's importance as a trade and shipping area became more viable. In 1889, Congress authorized the Brazos River and Dock Company to construct, own and operate sufficient jetties as might be necessary to create a navigable channel between the mouth of the Brazos River and the Gulf of Mexico.

The Port Commission (Figure 1) was created as a Chapter 62 district under the authority of Article16, Section 59 of the Texas Constitution on June 6, 1927 for the purposes of:

- Making improvements for the navigation of inland and coastal waterways
- For the preservation and conservation of said waterways in aid to navigation.

November 17, 1986, President Ronald Reagan signed "The Water Resources Development Act of 1986" which authorized the first new waterway construction starts since 1976. The authorization included the Freeport Harbor, Texas, 45-Foot Project. In 2014, Congress approved the Water Resource Development Act designating the Port as an "authorized project" which places our GRR and 55-Foot channel deepening project as one of the top tier of federal projects considered for funding. *Port Freeport currently awaits appropriation of funds from Congress to complete the navigation channel deepening and widening project.*

In 2007, the State of Texas passed House Bill 542, which legally changed the name of the Brazos River Harbor Navigation District to "Port Freeport". (Please see Appendix 1 for a more detailed account of Port Freeport's History)

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CURRENT OPERATIONS

As Brazoria County's gateway to the world, Port Freeport is continuing to diversify its service offerings to encompass growing trade in containerized, roll-on/roll-off (Ro/Ro), project cargo and liquid bulk sectors (Figure 2) while advancing initiatives to ensure sustained significant contributions to the region's economy for decades to come.

Port Freeport has a diverse portfolio of companies along the Freeport Harbor Channel (the Channel) that include private manufacturer's marine facilities, port tenants, and public private partnerships with long term leases. Below are our current Port statistics followed by a list of some of our partners who have helped us deliver these economic impact results.

Port Statistics

Ranking	Tonnage
26th in the U.S. in foreign tonnage	7.2 million tons domestic
31st in the U.S. in total tonnage	19.7 million (public and private berths)

TEU's	Vessel Calls
125,000 (2015 volume)	800 per year

Port Freeport's Partners

Channel Users	Description
Dole Fresh Fruits	Importer of agricultural products supplying regional grocery stores with fresh fruits
Mediterranean Shipping Company	2nd largest worldwide shipping company providing global reach for importers and exporters
Chiquita Brands International	Importer of agricultural products supplying regional grocery stores with fresh fruits
American Rice Inc. (ARI)	One of the world's premier millers and marketers of branded rice products
Hough Autoliners A/S	Worldwide Ro/Ro carrier exporting Arlington, Texas built General Motors Vehicles
Freeport LNG	Importer and exporter of Liquefied Natural Gas. Will Texas' largest producer/export of LNG by 2020
Seaway Pipeline Inc.	Import of Venezuelan crude oil, exporter of Canadian crude oil. Supplier to US Strategic Petroleum Reserve
Enterprise Products	Houston based natural gas and crude oil pipeline company
US Strategic Petroleum Reserve	Emergency fuel storage of oil maintained by the United States Department of Energy.
Vulcan Materials	The Unites States largest producer of construction aggregate
Tenaris	Multinational manufacturer and supplier of seamless and welded steel pipe products
Dow Chemical Company	One of the world's largest chemical companies
BASF	One of the world's largest chemical companies
Phillips 66	Houston based multinational energy company

ECONOMIC IMPACTS

Port Freeport is a fast growing Texas port for many reasons with the growth of prodution from shale oil and gas being one. Port Freeport's district currently encompasses apprximately 85% of Brazoria County (Figure 3). Within Brazoria County, approximately $25 Billion of new projects (Dow, BASF, Philipps 66, Freeport LNG, Tenaris) are being constructed of which $18.5 Billion are along the Channel. Port Freeport's economic impact and the jobs created are both growing dramatically, having doubled since 2012.

2014 Economic Impact Study*

Jobs	
Direct	16,400
Induced & Indirect	69,500
Related	40,100
Total Jobs	**126,000**
Economic Impact	
Direct Personal Income	$1.5 Billion
Indirect Income	$3.8 Billion
Related User Income	$2.3 Billion
Total Income	**$7.6 Billion**
Annual Tax Impacts	$522 Million
Total Economic Impact	**$46.2 Billion**

*Prepared by Texas A&M, TTI

PANAMA CANAL IMPACT

The expansion of the Panama Canal will have a deep impact on Port Freeport, Brazoria County and the state. These impacts will be felt in the container markets but also significantly in the energy business along the navigation channel and within Brazora County.

The expanded canal will allow larger ships to transit (Figure 4), enabling shipping lines to reduce their operational cost per container unit carried due to greater economies of scale. That reduction has been estimated at 50%; and the current cost to carriers will decrease from $0.04 per TEU mile to $0.02 per TEU mile (As per TEMS 2015 Feasibility Study). Shippers and receivers will seek the benefits of savings by utilizing these larger ships along this expanded trade lane for the carriage of their goods. Port Freeport with an improved channel and expanded container terminal combined with connection to Dallas Fort Worth, will become the *Port of Choice* for shipping lines.

Additionally, larger tankers carrying LNG, crude oil and pertroleum derivatives will now be able to deliver Texas petroleum produced in Post Panamax quantities to all reaches of the globe. Our partner, Freeport LNG, is currently constructing a $15 Billion Liquefaction Plant at Port Freeport.

STRATEGIC OBJECTIVES

Port Freeport recently completed a new master plan. This plan identifies three major projects that are our primary focus in order to maintain this current growth curve.

Channel Deepening and Widening

From the waterside, the Port is accessed via an existing 45 foot depth ship channel, which is a total of seven miles long from the pilot station. The Port offers five conventional berths, a barge unloading berth and one deep-water berthing area to its bulk aggregate and oil field service customers (Figure 5). The channel presently accommodates Handymax size vessels, and has the depth to accommodate Panamax Class vessels.

In 2014, Port Freeport received approval from Congress through the Water Resources Reform & Development Act for channel improvements. Port Freeport is one of the few Ports to receive this authorization.

The focus is to reach the permitted depth of 50-55 feet in order to accommodate the larger Post-Panamax vessels that will soon be transiting the Panama Canal's new 3rd set of locks. The current deepening and widening project is depicted in Figure 6.

Due to a shorter channel transit from open sea to the inner harbor, the costs to make these improvements and for future maintenance dredging will be significantly less when compared to other ports with longer channels.

Container Terminal Expansion

The Container Terminal Project was identified as the first major development project of the Port's Master Plan and construction began in 2012. Berth 7 (47 foot depth) opened in October of 2014 after completion of the Post-Panamax cranes commissioning process. This new multi-purpose facility will enable the Port to expand the Port's base cargoes, provide existing and future customers with better service and "state of the art" facilities.

The port operates Velasco Terminal as one of the most efficient breakbulk and container terminals in the Gulf Coast region with direct access to the Gulf of Mexico via our deep water channel. Transit times to and from the pilot station are one hour or less or about 7 miles in distance over water.

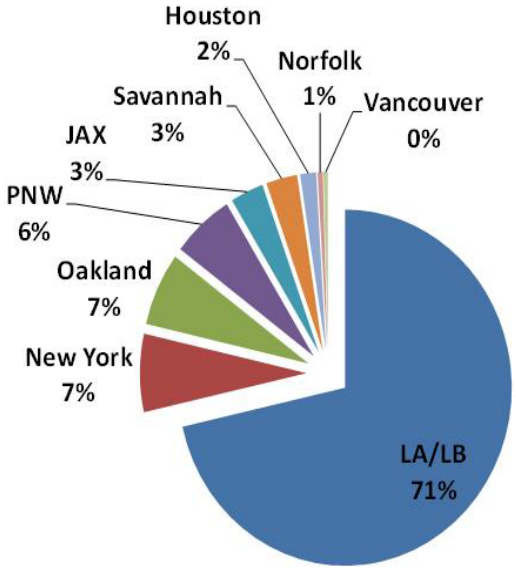
The terminal site is located alongside the Port's Upper Turning Basin. Preliminary full build-out planning of the Velasco Terminal Project calls for a two more berths (2 x 1100') plus a 200' Ro/Ro ramp totaling 2,400 feet in length. Long term these facilities will be capable of berthing multiple ships of various lengths and operating simultaneously. The fixed Ro/Ro ramp will also be constructed to provide service to ships and/or barges. The terminal will include a dedicated truck gate, along with ample open storage for containers, and project cargo.

Port Freeport's Container Terminal opened for business in October of 2014 with the arrival of two Post-Panamax container cranes and the new weekly MSC Global container service.

Approximately 85 operational acres in size, the terminal layout is flexible and can be operated utilizing an all wheeled operation, with top picks, reach stackers, straddle carriers and or RTG container handling equipment, to vary throughput capacity as needed. Velasco Terminal has an estimated Maximum Practical Capacity (MPC) of 800,000 TEU/Year in the current configuration. (Figure 7)

SH 36 Corridor Project

Ft. Bend County, Brazoria County and Port Freeport have embarked on what could be one of the most significant infrastructure development projects in the State of Texas, the SH36 Rail Corridor project. These entities have formed a special district charged with the developing a greenfield rail line from Freeport to Rosenberg. With this rail link, Port Freeport will have connection to three Class 1 railroads (Union Pacific, Burlington Northern Santa Fe and Kansas City Southern). From Rosenberg both UPRR and BNSF have further connections to Dallas-Fort Worth. Texas is the 3rd largest market in the United States for the consumption of foreign produced goods. Dallas-Fort Worth is Texas' largest logistic hub and 3rd in the nation behind Los Angeles/Long Beach and New York/New Jersey. Dallas-Fort Worth is presently served in majority by West Coast ports and not Gulf of Mexico or Texas ports.



Dallas-Fort Worth

This results from the economics of small ships, where small vessels currently hold more than 50% market share vs. the West Coast in Texas. Texas Ports currently have only a small share of DFW market, but Texas ports share will increase with large ships provided they have effective access to the DFW market.

Brazoria and Fort Bend Counties and Port Freeport together employed Transportation Economics Management Services and Dr. Alex Metcalf to prepare a feasibility study for the SH36 Rail Corridor. Initial Economic Benefits have been estimated to add 15,000-30,000 jobs between Freeport and Rosenberg, and generate approximately $775 Million in income.

See Figure 8 for a conceptual corridor depicting the primary link between Port Freeport and Rosenberg. Figure 9 describe some additional Economic Impacts that will be delivered by the corridor.

There are many reasons why Port Freeport should be the Gulf Coast's 1st Port of Call.
We are a deepwater Port with limited dredging required to accommodate Post Panamax class

Vessels. Our channel is currently 45 foot depth, sufficient to accept current Panamax Class vessels; and Port Freeport has been permitted to deepen to 50-55 feet. Port Freeport is the closest deepwater port to efficiently serve Dallas Fort Worth; and just 1 hour south of the convergence of three Class 1 Railroads at Rosenberg. Through the channel imporvements, port expansion and our allignment with Brazoria and Fortbend Counties, Port Freeport can become the Port of Choice and positively impact Texas and our national and realize the full benefits of the expanded Panama Canal.

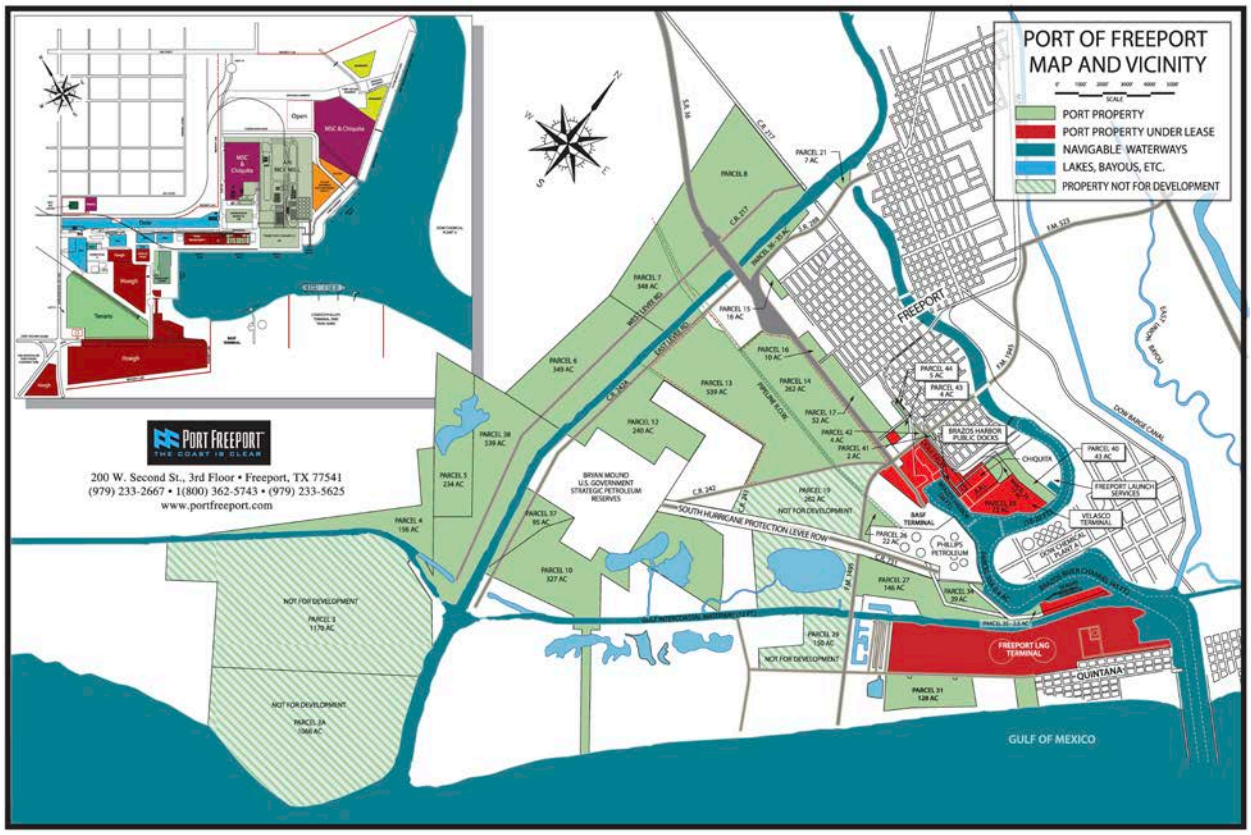


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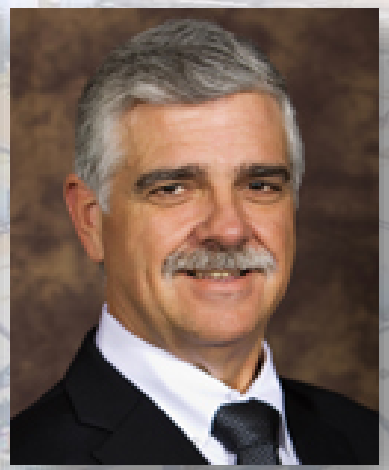
Figure 1 – Port Commission

Ravi K. Singhania
Chairman

Bill Terry
Vice Chairman



Paul Kresta
Secretary

John Hoss
Commissioner

Shane Pirtle
Commissioner

Rudy Santos
Asst. Secretary

- Each Port Commissioner serves a term of 6 years.
- The 6 year terms are staggered with an election held each uneven numbered year for two commissioner positions.

Figure 2 – Channel Users

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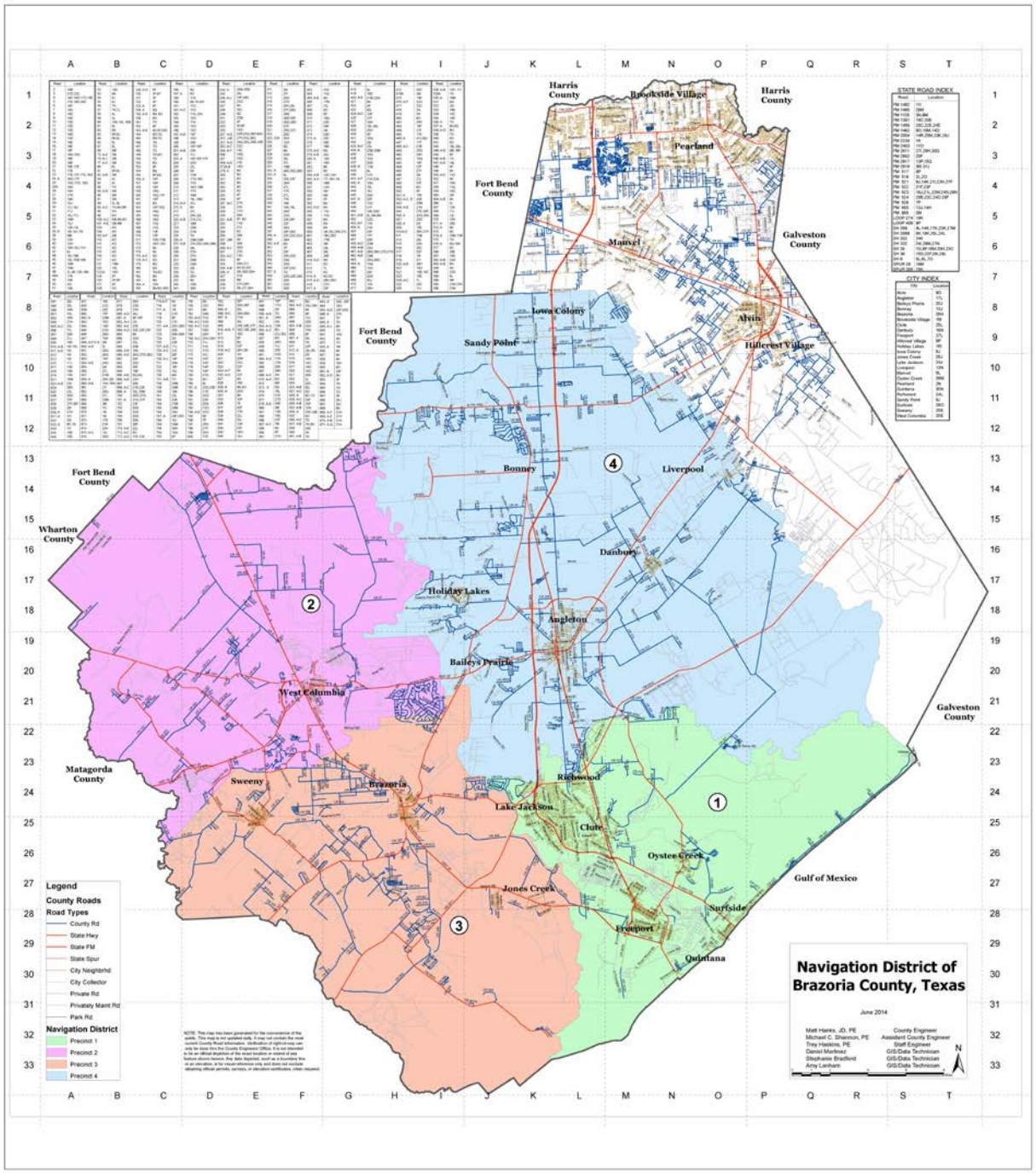

(Figure 3)

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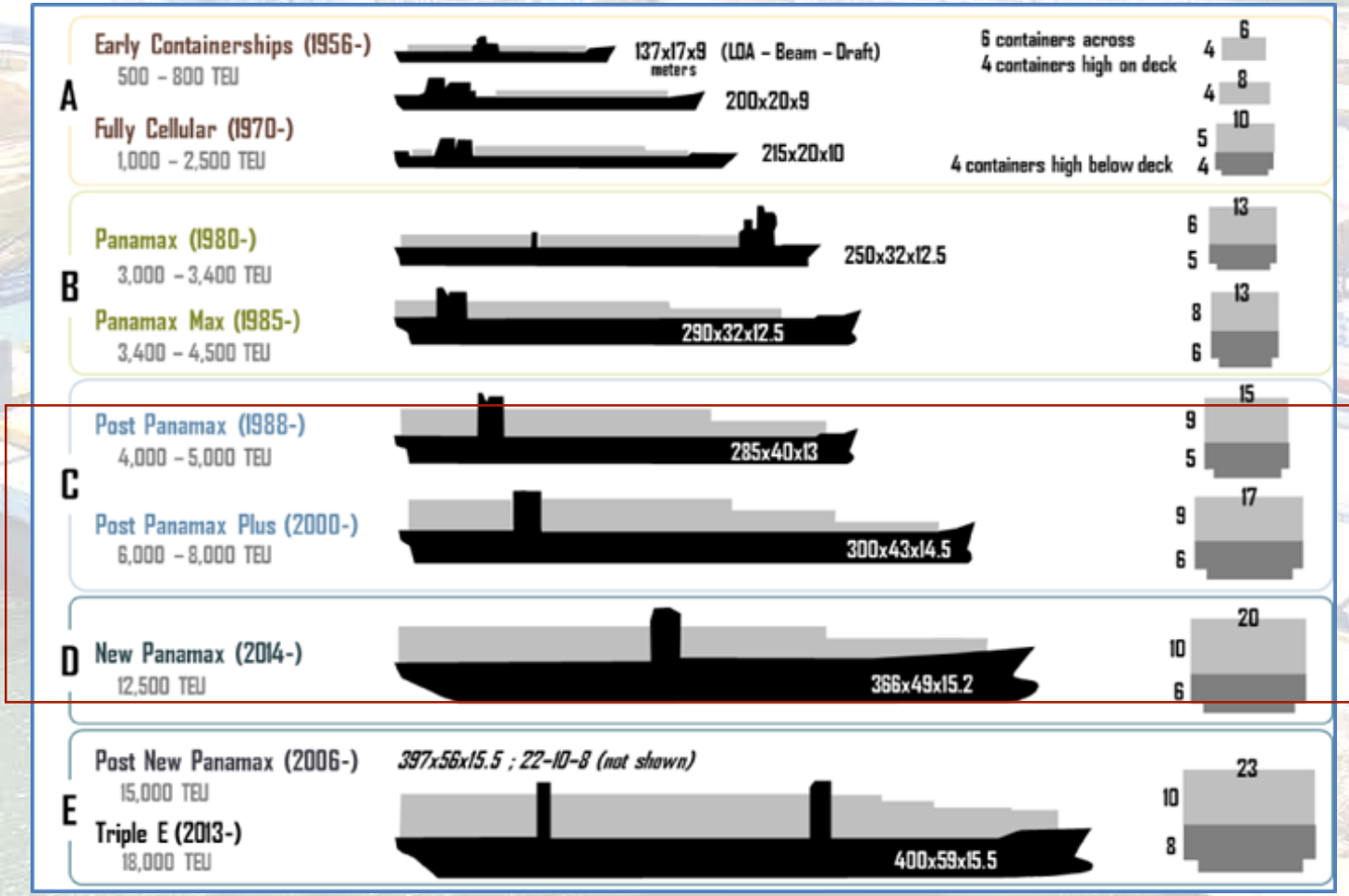
Figure 4 – Panama Canal will Change the Situation



Capacity of New Panamax ship will increase 2-3 times, but requires 48-51 feet draft. Only a few Gulf and East Coast ports can support this, but in the long term Freeport will be able to accommodate these larger ships.

Figure 5 – Port Freeport Harbor

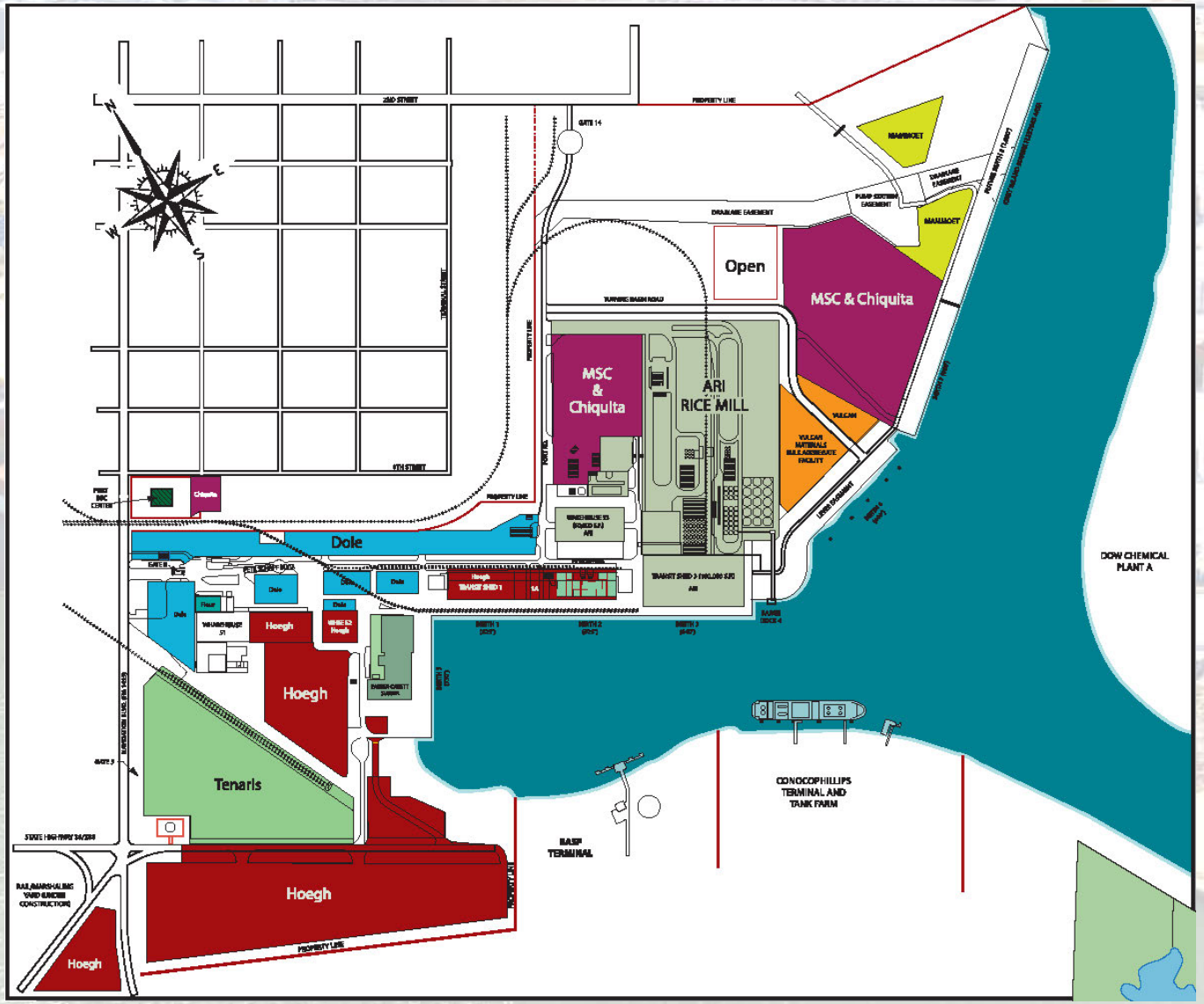


Figure 6 – Channel Deepening and Widening

General Re-evaluation and Review Report (GRR) approval expected in late 2016 or early 2017

- Intent is to address navigational issues omitted from the USCOE Feasibility Study
- Creation of:
  - Lower bend easing
  - Widening of the cannel
  - Enhancements to the upper turning basin.

Critical element

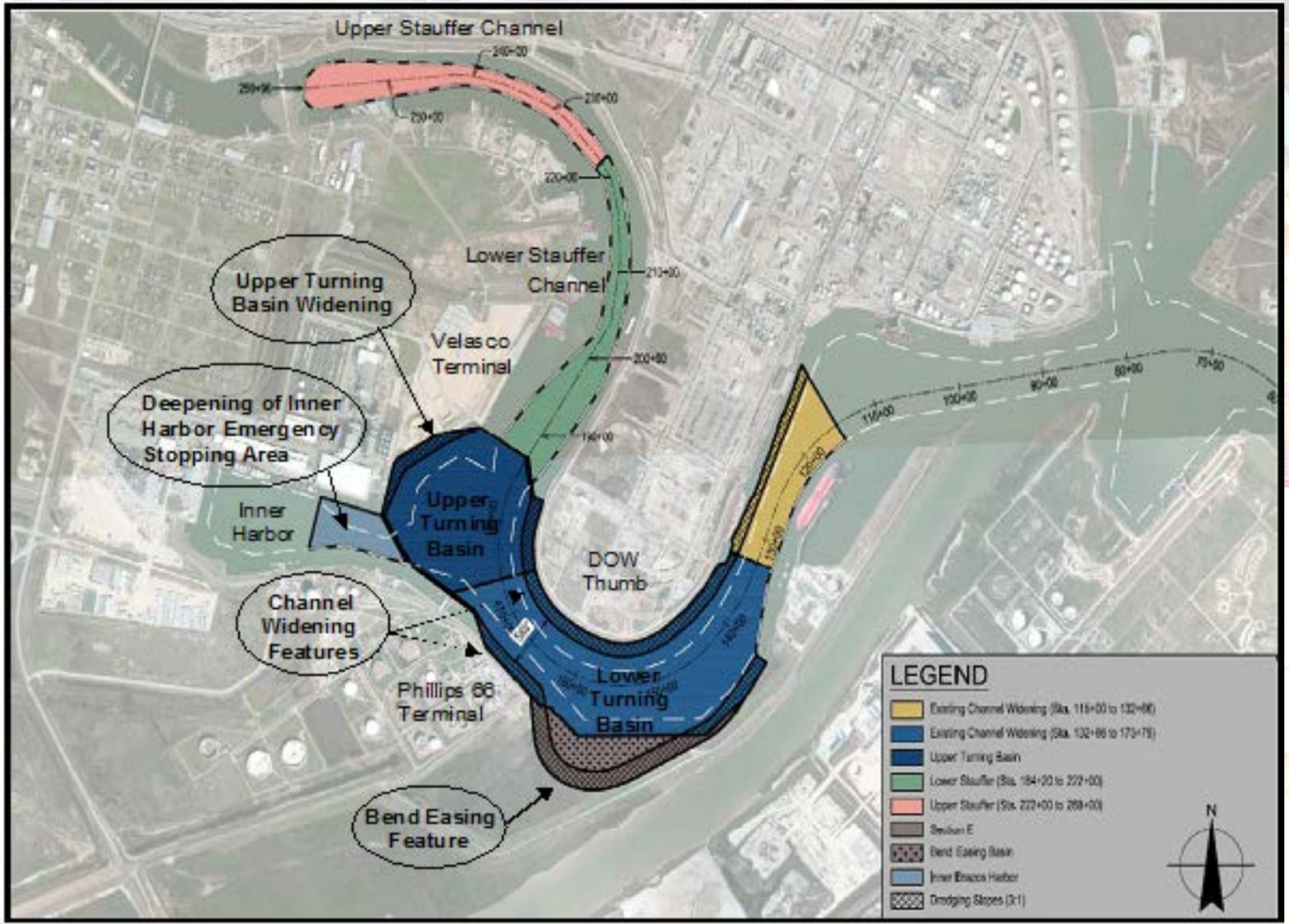
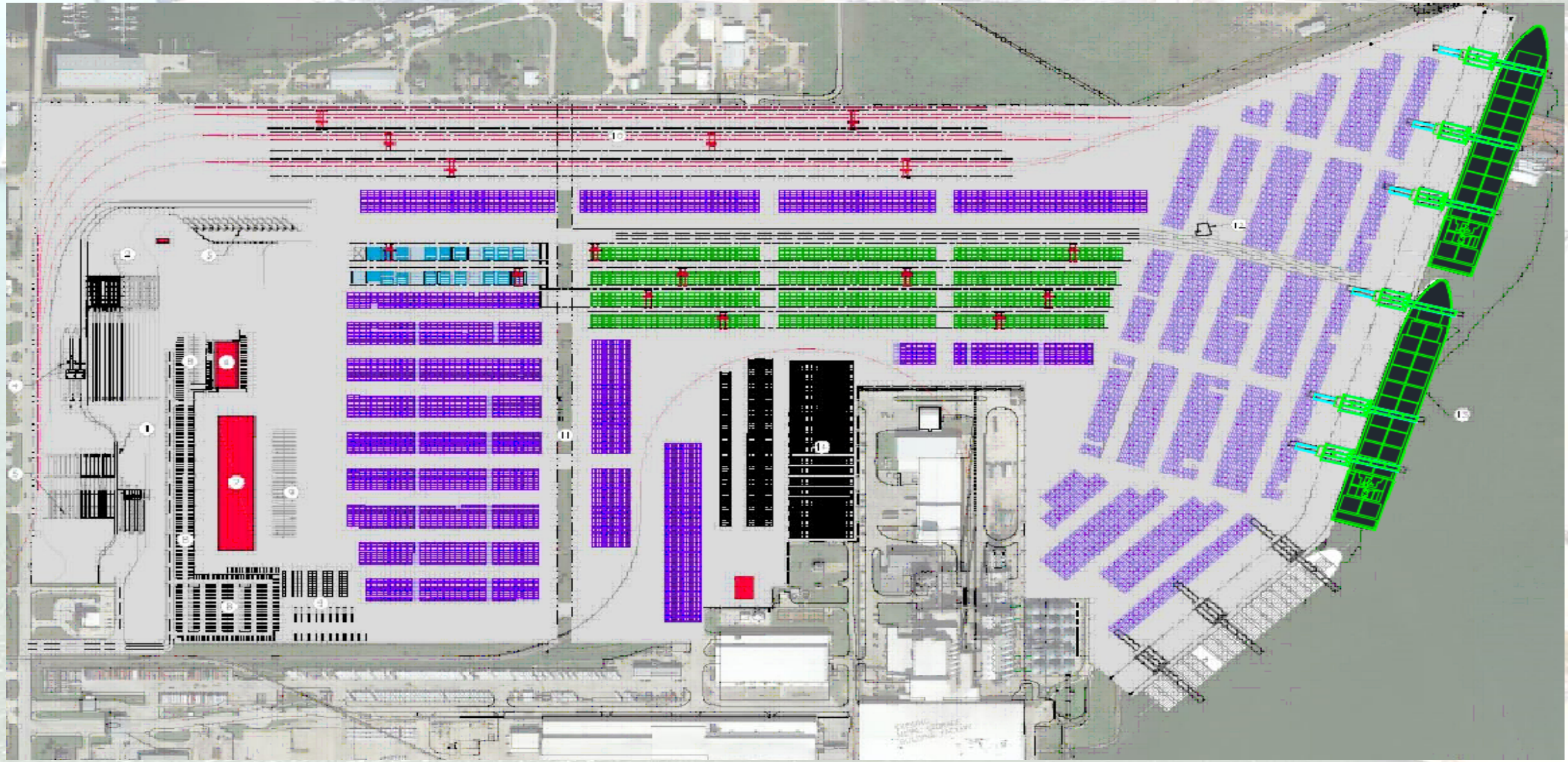


Figure 7 – Container Terminal Design



Darker vessels denote Post-Panamax

Figure 8 – SH 36 Rail Corridor

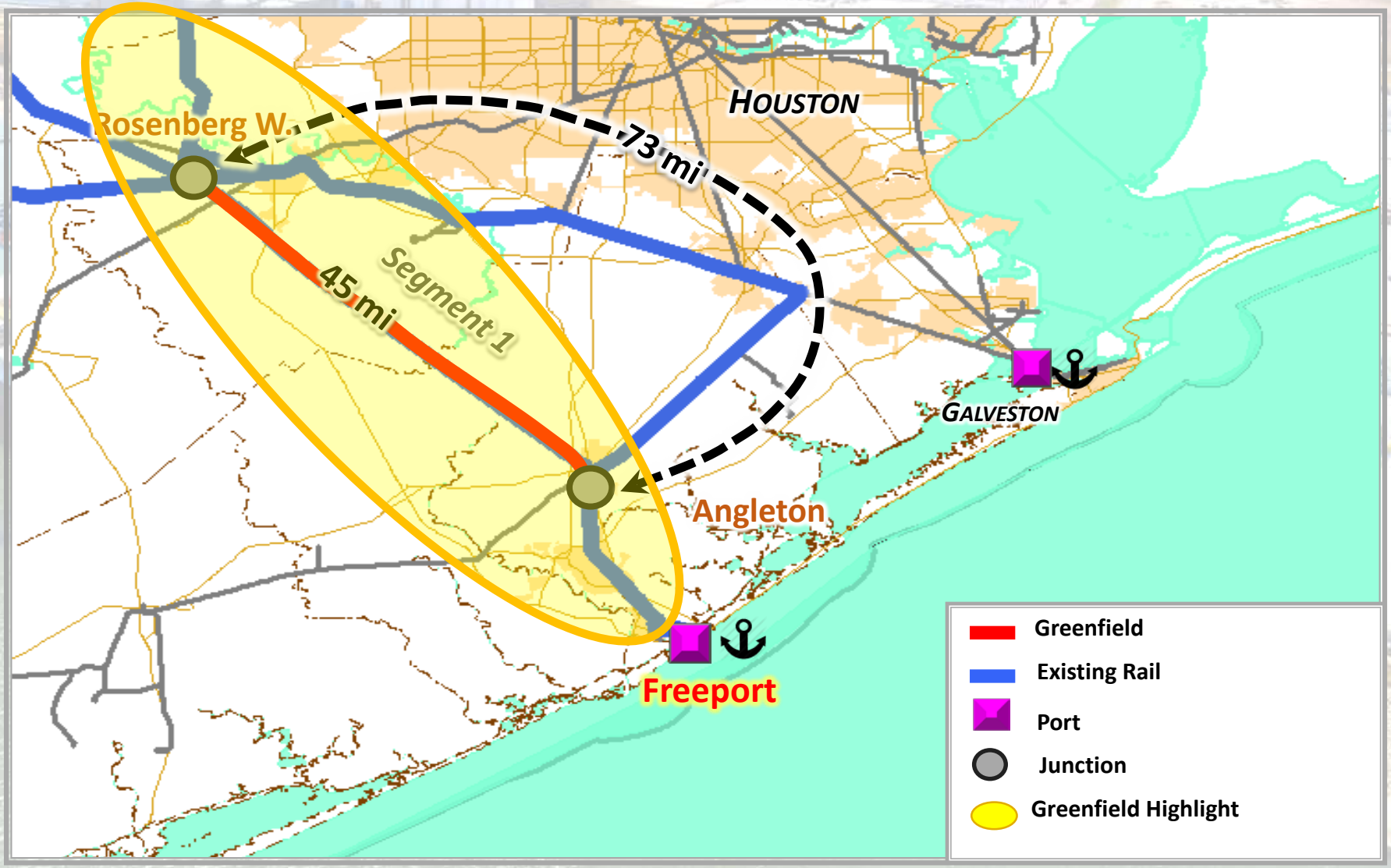
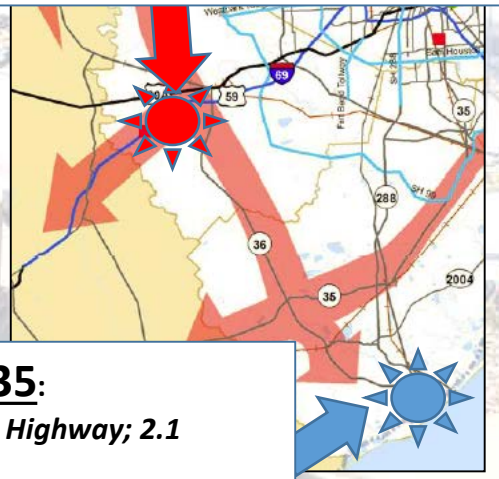


Figure 9 -Hwy 36A Rail Corridor & Benefits

- ***Current modeling suggests water penetration of local Houston market won't change much, due to added trucking cost from Freeport.***
  - ***Most new Freeport traffic goes to Dallas, Fort Worth, San Antonio and beyond – served today out of LA/LB.***
  - ***As a result, rail volumes will continue to increase everywhere and UP and BNSF will still need to develop additional ramp capacity.***
- ***Rosenberg is well positioned in the future to become a major rail logistics hub. Shifting intermodal activity from UP Englewood and BNSF Pearland to Rosenberg would reduce rail congestion in downtown Houston.***
- ***Overall, potential is 15,000 - 30,000 jobs likely in the SH 36A corridor, mostly consisting of distribution and industrial jobs.***

Rosenberg Rail Intermodal 2035:
Up to 1 Million TEUs on the Highway;
Houston Distribution Growth 25% Share of Rail TEUs
5,000-10,000 jobs



Port of Freeport 2035:
Up to 1.4 Million TEUs on the Highway; 2.1 Million going out by Rail.
Port Operations, Import and Export Transload, Houston Distribution Growth Share of Water TEUs
10,000-20,000 jobs.

Source: TEMS, Inc.